

SUMMARY

In-State Service Businesses

Purpose

BOE requests resources and funding for new outreach and collection efforts to increase use tax collection from in-state service businesses, construction contractors, and other business consumers. The efforts will address the use tax portion of the California's tax gap.

Justification

- Increases use tax revenue by an estimated \$13.6 million during FY 2008-09, \$25.5 million in FY 2009-10, and an estimated \$34.2 million for each subsequent fiscal year.
- Addresses the Legislature's intent to close the \$2 billion sales and use tax gap.
- Addresses BOE's goals: Maximize voluntary compliance, improving the efficiency of BOE's tax and fee programs, and creates an expanded and responsive infrastructure.
- Provides an ongoing estimated benefit-to-cost ratio of 4.6 to 1 from the third year (FY 2010-11) for this program.
- Encourages greater voluntary compliance in the use tax program and other BOE programs requiring permits and/or licenses through outreach and collection efforts.
- Benefits existing businesses by ensuring that all businesses file use tax returns and pay use taxes due under the law.
- Creates public awareness of the consequences of tax evasion and improves voluntary compliance.

		FY 2008-09	FY 2009-10	FY 2010-11
Revenues	Total (New)	\$13,600,000	25,500,000	34,200,000
Expenditures	Total (New)	\$4,388,000	\$8,021,000	\$7,449,000
Benefit/Cost		3.1:1	3.2:1	4.6:1
Funding Source	General Fund	\$2,852,000	\$5,214,000	\$4,842,000
	Reimbursements	1,536,000	2,807,000	2,607,000
Positions	Total (New)	49.5	106.5	106.5

Background

- The use tax portion of California's tax gap is estimated at \$1.1 billion.
- Use tax incurred by in-state service businesses is primarily a result of service industries that purchase capital assets from out-of-state.
- Service industries are generally not required to hold seller's permits. Therefore, when the seller is not registered to collect the use tax for California, the transaction becomes one of use tax for the buyer.
- Approximately 2 million businesses in California are not required to be registered with the BOE.
- Initial efforts will involve contacting business consumers that have a high potential for purchases subject to use tax, explaining the use tax to those individuals, and providing them a return to report their purchases.

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Individual Consumers

Purpose

BOE requests resources and funding to expand the outreach and education efforts to improve voluntary compliance for individuals reporting use tax. The efforts will address a portion of use tax that contributes to California's entire sales and use tax gap.

Justification

- Increases use tax revenue by an estimated \$1 million during FY 2008-09, \$2 million in FY 2009-10, and an estimated \$4 million for each subsequent fiscal year.
- Addresses the Legislature's intent to close the \$2 billion sales and use tax gap.
- Addresses BOE's goals: Maximize voluntary compliance, improving the efficiency of BOE's tax and fee programs, and creates an expanded and responsive infrastructure.
- Provides an ongoing estimated benefit-to-cost ratio of 9.6 to 1 from the third year (FY 2010-11) for this program.
- Encourages greater taxpayer voluntary compliance due to increased public awareness of the use tax program through outreach and education.

		FY 2008-09	FY 2009-10	FY 2010-11
Revenues	Total (New)	\$1,000,000	\$2,000,000	\$4,000,000
Expenditures	Total (New)	\$631,000	\$746,000	\$416,000
Benefit/Cost		1.6:1	2.7:1	9.6:1
Funding Source	General Fund	\$410,000	\$485,000	\$270,000
	Reimbursements	221,000	261,000	146,000
Positions	Total (New)	1.5	4.5	4.5

Background

- The use tax portion of California's sales and use tax gap is estimated at over \$1.1 billion.
- Majority of Californians are not aware that use tax exists, or Californians do not understand how and when use tax applies.
- Most common way for an individual to incur a use tax liability is to purchase something for use in California from a company out-of-state that does not charge California tax. These types of transactions often occur through catalog sales and internet purchases.
- Most common way for an individual to report use tax is through the income tax return.
- Of the 15.4 million individual income tax returns filed in 2006, only 31,000 reported use tax for a total of about \$5.03 million.
- Based on the estimated tax gap, there remains an additional \$288 million in individual use tax due to the state.
- Efforts include education and outreach efforts to improve awareness of the use tax.
- The average use tax liability is \$35 per household therefore it is not cost effective nor good government to initiate enforcement efforts in this area.
- With a compliance rate of 96% under the sales tax program, it is likely that voluntary compliance can dramatically increase once individuals understand their reporting responsibilities.

SUMMARY

Internet Sellers

Purpose

BOE requests resources and funding to educate and to ensure California internet sellers understand their responsibilities with respect to sales made over the internet and to establish resources to create leads through internet research. The efforts will address the non-filer/evader portion of the California's tax gap.

Justification

- Increases sales tax revenue by an estimated \$7.9 million during FY 2008-09, \$10.5 million in FY 2009-10, and an estimated \$11.4 million for each subsequent fiscal year.
- Addresses the Legislature's intent to close the \$2 billion sales and use tax gap.
- Addresses BOE's goals: Maximize voluntary compliance, improving the efficiency of BOE's tax and fee programs, and creates an expanded and responsive infrastructure.
- Provides an ongoing estimated benefit-to-cost ratio of 15.6 to 1 from the third year (FY 2010-11) of this program.
- Seeks partnering with on-line market places to educate buyers and sellers and then gather statistics to determine the compliance level of the sellers. If compliance levels are low, additional partnering to establish compliance.
- Provides source information to develop leads that may not otherwise be available.
- Creates a more level playing field for brick and mortar businesses that are at a pricing disadvantage due to tax requirements.
- Ensure California on-line retailers have a sellers permit and file and pay all taxes legally due.
- Creates public awareness of the consequences of tax evasion and improves voluntary compliance.

		FY 2008-09	FY 2009-10	FY 2010-11
Revenues	Total (New)	\$7,900,000	\$10,500,000	\$11,350,000
Expenditures	Total (New)	\$689,000	\$747,000	\$726,000
Benefit/Cost		11.5:1	14.1:1	15.6:1
Funding Source	General Fund	\$448,000	\$486,000	\$472,000
	Reimbursements	241,000	261,000	254,000
Positions	Total (New)	9.0	11.0	11.0

Background

- Non-filers/Tax Evaders make up 22.4% or \$450 million of the California's tax gap.
- Many retailers are unaware that their internet sales are subject to tax.
- Retailers may intentionally evade tax knowing that it is more difficult for the State to discover internet sellers. There are no other sources to obtain proof of sales from other than the internet provider.
- BOE must be proactive in locating businesses and pursuing compliance in an effort to level the playing field for all businesses in California.
- Proposal includes education and outreach, data mining information obtained from on-line marketplaces and staff researching of Internet sellers.

SUMMARY

Itinerant Vendors

Purpose

BOE requests resources and funding to ensure out-of-state and in-state sellers doing business in California for a short period of time are aware of permit and reporting requirements under the sales and use tax laws and seek voluntary compliance. Establish enforcement efforts specific to this group. The efforts will address the non-filer/tax evader portion of the California's tax gap.

Justification

- Increases sales tax revenue by an estimated \$291,000 during FY 2008-09, \$793,000 in FY 2009-10, and an estimated \$1.1 million for each subsequent fiscal year.
- Addresses the Legislature's intent to close the \$2 billion sales and use tax gap.
- Addresses BOE's goals: Maximize voluntary compliance, improving the efficiency of BOE's tax and fee programs, and creates an expanded and responsive infrastructure.
- Provides an ongoing estimated benefit-to-cost ratio of 3.5 to 1 from the third year (FY 2010-11) for this program.
- Encourages greater compliance due to increased awareness of the sales tax program through outreach, education, and enforcement.
- Creates public awareness of the consequences of tax evasion and improves voluntary compliance.

		FY 2008-09	FY 2009-10	FY 2010-11
Revenues	Total (New)	\$291,000	\$793,000	\$1,100,000
Expenditures	Total (New)	\$198,000	\$323,000	\$302,000
Benefit/Cost		1.5:1	2.5:1	3.5:1
Funding Source	General Fund	\$129,000	\$210,000	\$196,000
	Reimbursements	69,000	113,000	106,000
Positions	Total (New)	2.5	4.5	4.5

Background

- Itinerant vendors include out-of-state retailers that come into California for a short period of time (Christmas tree retailers, trade show participants), as well as in-state sellers (swap meet sellers, street corner merchants, animal breeders).
- The Non-filers/Tax Evaders make up 22.4% or \$450 million of the California's tax gap.
- Efforts will include education and outreach to sellers that may be unaware of their sales tax reporting responsibilities.
- Itinerant vendors who do not maintain a permit will be contacted and we will request voluntary compliance. If we are unable to obtain compliance, we will include these types of cases with our traditional audit and compliance program.
- Historically, there have not been specific efforts towards verifying itinerant vendors' reporting. Enforcement efforts in this area would undoubtedly result in improved voluntary compliance as well as new revenues.

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Cash Based Businesses

Purpose

BOE requests resources and funding to direct efforts specifically towards cash based businesses that underreport or fail to report entirely. Evasion for these businesses is simplified due to the lack of record keeping required when dealing primarily in cash. This effort will address the non-filer/tax evader portion of the California's tax gap.

Justification

- Increases use tax revenue by an estimated \$291,000 during FY 2008-09, \$562,000 in FY 2009-10, and an estimated \$743,000 for each subsequent fiscal year.
- Addresses the Legislature's intent to close the \$2 billion sales and use tax gap.
- Addresses BOE's goals: Maximize voluntary compliance, improving the efficiency of BOE's tax and fee programs, and creates an expanded and responsive infrastructure.
- Provides an ongoing estimated benefit-to-cost ratio of 3 to 1 from the third year (FY 2010-11) for this program.
- BOE will partner with other agencies to ensure we exchange information about these businesses so that they become part of the system and are easier to track and audit. As such, our efforts related to these businesses will likely produce additional revenue for the State of California through our sister tax agencies as well.

		FY 2008-09	FY 2009-10	FY 2010-11
Revenues	Total (New)	\$291,000	\$562,000	\$743,000
Expenditures	Total (New)	\$215,000	\$263,000	\$250,000
Benefit/Cost		1.4:1	2.1:1	3.0:1
Funding Source	General Fund	\$140,000	\$171,000	\$163,000
	Reimbursements	75,000	92,000	88,000
Positions	Total (New)	2.5	3.5	3.5

Background

- The Non-filers/Tax Evaders make up 22.4% or \$450 million of the California's tax gap.
- It is easier for cash based businesses to avoid registering for a seller's permit or to underreport sales.
- It is more difficult to accurately audit sales due to lack of record keeping when dealing primarily in cash.
- Efforts include improving audit procedures to address issues specific to cash based businesses and ensuring these businesses are tracked through California's tax system.

SUMMARY

Audit Program Improvements

Purpose

BOE requests resources and funding to improve sales and use tax reporting by retailers that already hold seller's permits through an increased presence and enforcement. This proposal will address the registered taxpayer portion of the California's tax gap.

Justification

- Increases use tax revenue by an estimated \$ 11.6 million during FY 2008-09, \$24.6 million in FY 2009-10, and an estimated \$27.4 million for each subsequent fiscal year.
- Addresses the Legislature's intent to close the \$2 billion sales and use tax gap.
- Addresses BOE's goals: Maximize voluntary compliance, improving the efficiency of BOE's tax and fee programs, and creates an expanded and responsive infrastructure.
- Provides an ongoing estimated benefit-to-cost ratio of 2.7 to 1 from the third year (FY 2010-11) for this program.

		FY 2008-09	FY 2009-10	FY 2010-11
Revenues	Total (New)	\$11,600,000	\$24,600,000	\$27,400,000
Expenditures	Total (New)	\$6,578,000	\$10,816,000	\$10,230,000
Benefit/Cost		1.8:1	2.3:1	2.7:1
Funding Source	General Fund	\$4,276,000	\$7,030,000	\$6,650,000
	Reimbursements	2,302,000	3,786,000	3,580,000
Positions	Total (New)	61.0	107.5	107.5

Background

- Improved audit selection techniques will result in targeting more productive audits.
- Proposal includes hiring 24 out-of-state auditors to address the continued growth in accounts eligible for audit in the out-of-state offices.
- Expansion of the current in-state audit program will result in auditing more of the eligible accounts and thereby improving voluntary taxpayer compliance.

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Collection Program Improvements

Purpose

BOE requests resources and funding to augment the collection program thereby reducing the overall accounts receivable balances. This proposal addresses the registered taxpayer portion of the California sales and use tax gap.

Justification

- Increases use tax revenue by an estimated \$ 2.9 million during FY 2008-09, \$5.8 million in FY 2009-10, and an estimated \$6.0 million for each subsequent fiscal year.
- Addresses the Legislature's intent to close the \$2 billion sales and use tax gap.
- Addresses BOE's goals: Maximize voluntary compliance, improving the efficiency of BOE's tax and fee programs, and creates an expanded and responsive infrastructure.
- Provides an ongoing estimated benefit-to-cost ratio of 3.1 to 1 from the third year (FY 2010-11) for this program.

		FY 2008-09	FY 2009-10	FY 2010-11
Revenues	Total (New)	\$2,900,000	\$5,800,000	\$6,000,000
Expenditures	Total (New)	\$1,291,000	\$2,064,000	\$1,938,000
Benefit/Cost		2.2:1	2.8:1	3.1:1
Funding Source	General Fund	\$839,000	\$1,342,000	\$1,260,000
	Reimbursements	452,000	722,000	678,000
Positions	Total (New)	14.0	24.0	24.0

Background

- Improvements in data matching and the addition of new collectors will reduce accounts receivable by \$6.0 million by FY 2010-11.
- Identifying and addressing areas that can be streamlined will allow collectors to appropriately focus on productive work.

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Expanded Bankruptcy and Out-of-State Collections

Purpose

BOE requests resources and funding to improve collection from bankrupt and out-of-state debtors which will address the registered taxpayer portion of the California's tax gap.

Justification

- Increases use tax revenue by an estimated \$ 4.2 million during FY 2008-09, \$4.2 million in FY 2009-10, and an estimated \$4.2 million for each subsequent fiscal year.
- Addresses the Legislature's intent to close the \$2 billion sales and use tax gap.
- Addresses BOE's goals: Maximize voluntary compliance, improving the efficiency of BOE's tax and fee programs, and creates an expanded and responsive infrastructure.
- Provides an ongoing estimated benefit-to-cost ratio of 5.9 to 1 from the third year (FY 2010-11) for this program.

		FY 2008-09	FY 2009-10	FY 2010-11
Revenues		\$4,200,000	\$4,200,000	\$4,200,000
Expenditures	Total (New)	\$534,000	\$713,000	\$713,000
Benefit/Cost		7.9:1	5.9:1	5.9:1
Funding Source	General Fund	\$347,000	\$463,000	\$463,000
	Reimbursements	187,000	250,000	250,000
Positions	Total (New)	5.0	9.0	9.0

Background

- The electronic recording of tax liens should result in BOE obtaining a higher lien priority than competing creditors.
- Data matching bankruptcy court information obtained from the Franchise Tax Board will improve BOE's chances of recovery from bankrupt debtors.
- Proposals include education and outreach to out-of-state sellers with California locations who may not realize their liquidation or sale of assets in California is a taxable event.